SGI CANADA

Quarterly Report
September 2013

CORPORATE PROFILE

Mission

We're your insurance company, offering protection that benefits you, your family and your community.

Vision

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

Values

Integrity Conducting ourselves with honesty, trust and fairness.

Caring Acting with empathy, courtesy and respect.

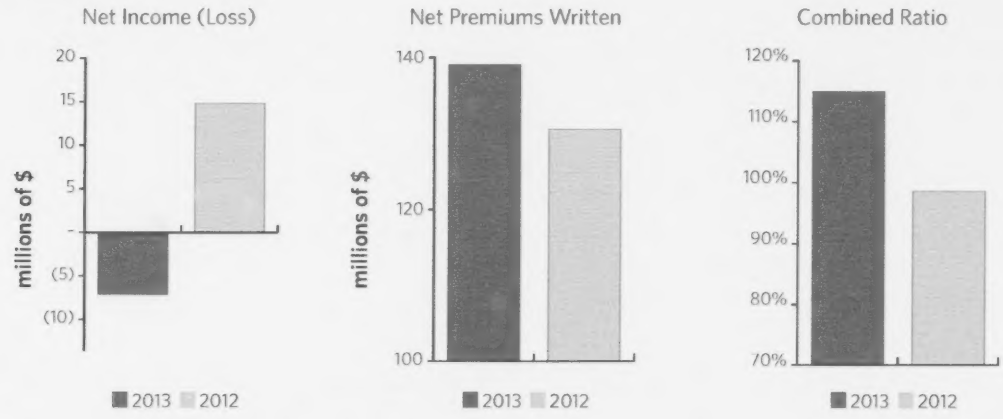
Innovation Implementing creative solutions to achieve our vision.

About SGI CANADA

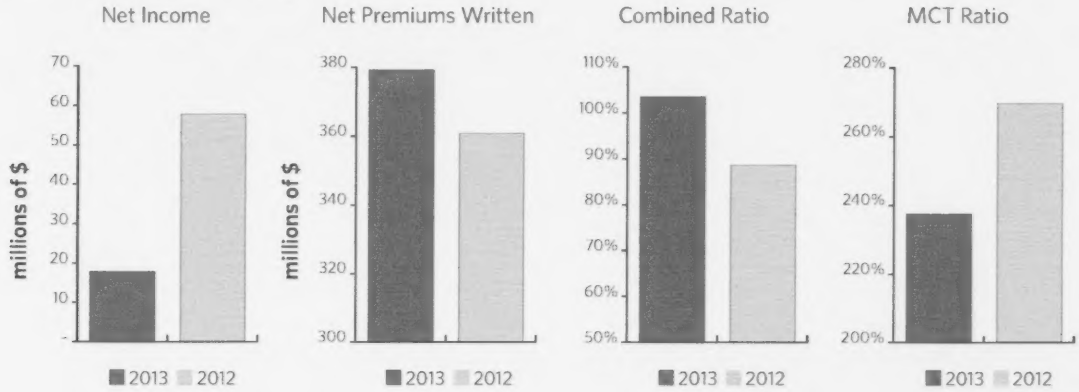
SGI CANADA is a dynamic and innovative company selling property and casualty insurance products. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, Coachman Insurance Company in Ontario and the Insurance Company of Prince Edward Island in Prince Edward Island, Nova Scotia and New Brunswick. The company employs about 1,900 people and its head office is located in Regina, Saskatchewan. Products are sold through a network of independent insurance brokers.

Financial Highlights

For the three months to Sept. 30



For the nine months to Sept. 30



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides a review of the results of the operations of SGI CANADA and its subsidiaries, SGI CANADA Insurance Services Ltd., the Insurance Company of Prince Edward Island and Coachman Insurance Company, collectively referred to as SGI CANADA or the Corporation. This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the nine-month period ended September 30, 2013, and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2012. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to November 13, 2013.

Overview

	three months to September 30			nine months to September 30		
(thousands of $)	2013	2012	Change	2013	2012	Change
Net premiums written	138,220	130,439	7,781	379,691	360,938	18,753
Net income (loss)	(7,249)	14,998	(22,247)	17,442	58,480	(41,038)
Combined ratio	116%	99%	17%	103%	90%	13%
Minimum Capital Test				237%	268%	-31%

The Corporation continues to experience overall premium growth with increases coming from Alberta, Saskatchewan and the Maritimes. The largest growth market for the Corporation was Alberta, which saw a 20% increase over 2012. While premiums grew in the first nine months of 2013 compared to 2012, net income declined due to higher claim costs. The volatile winter conditions and significant snowfall in Saskatchewan led to an unusually high number of personal lines claims related to ice damming. In addition, Alberta claim results suffered due to flooding in southern Alberta, higher than expected auto claims due to large losses, and several hail storms resulting in higher personal lines claims.

The Corporation continues to be adequately capitalized, with a Minimum Capital Test (MCT) score of 237% at September 30, 2013.

Outlook

Poor underwriting results have been offset with solid investment earnings for the first three quarters of 2013, leaving SGI CANADA well positioned leading into the fourth quarter, which is generally a strong quarter financially. The Corporation remains focused on its insurance operations in all jurisdictions, including maintaining adequate pricing and diligent claim management. A focus on strong underwriting fundamentals and providing outstanding customer service to its brokers remains key to the Corporation's success.

Strong equity markets have been generating favourable equity investment earnings particularly in the U.S. and internationally, due generally to increased confidence and accelerating economic fundamentals in the United States. This has resulted in the expectation of reduced monetary stimulus causing long-term interest rates to increase. To protect from rising interest rates, the Corporation holds a relatively short duration in its fixed income portfolio, which has resulted in only limited capital losses on its fixed income investments. The Corporation continues to maintain a well diversified, high-quality investment portfolio governed by prudent investment management policies and processes.

Revenue

	three months to September 30			nine months to September 30		
(thousands of $)	2013	2012	Change	2013	2012	Change
Premiums earned	127,127	121,540	5,587	373,004	358,536	14,468
Investment earnings	14,755	14,443	312	33,579	28,269	5,310

Premiums written by operating segment

	three months to September 30			nine months to September 30		
(thousands of $)	2013	2012	Change	2013	2012	Change
Saskatchewan	100,024	94,045	5,979	274,754	259,027	15,727
Alberta and Manitoba	19,385	17,219	2,166	49,967	43,718	6,249
Maritimes	6,226	6,238	(12)	18,163	17,479	684
Ontario	12,585	12,937	(352)	36,807	40,714	(3,907)
Net premiums written	138,220	130,439	7,781	379,691	360,938	18,753
Change in unearned premiums	(11,093)	(8,899)	(2,194)	(6,687)	(2,402)	(4,285)
Net premiums earned	127,127	121,540	5,587	373,004	358,536	14,468

Net premiums written in Saskatchewan increased 6.1% in the first nine months of 2013 with personal lines, commercial and personal auto, and agro all contributing to the increase. Alberta operations experienced growth in premiums written of 20.5% in the first nine months of 2013, with automobile business contributing the majority of the increase. Premiums written in the Maritimes increased 3.9% in the first nine months of 2013 with Nova Scotia and Prince Edward Island supplying the majority of the increase, a result of increased auto policy writings. The decrease in Ontario premiums written is primarily the result of a decline in auto policies, as improving overall industry auto results in recent years has resulted in increasing competition in this market.

Year-to-date investment earnings increased $5.3 million over the same period in 2012. Strong equity prices have resulted in year-to-date equity investment earnings at levels $7.7 million higher than the same period in 2012. The strong equity returns are partially offset by lower overall bond returns resulting from increasing interest rates in 2013. The year-to-date market value rate of return at September 30, 2013, was 4.0%, compared to 3.3% for the same period in 2012.

Expenses

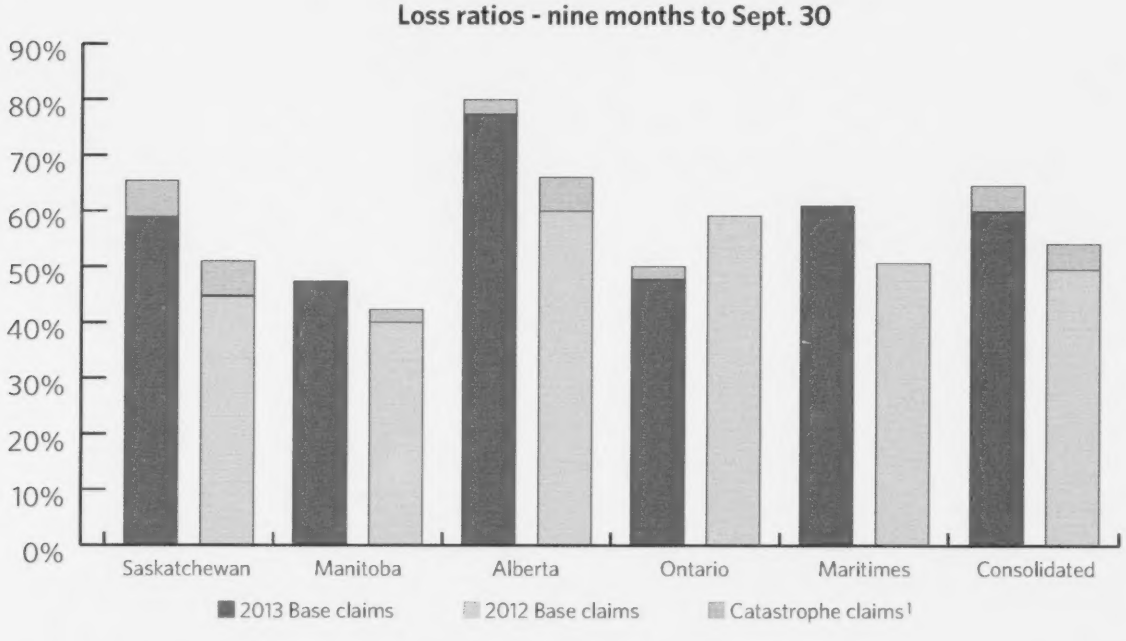
(thousands of $ – except percentages)	three months to September 30			nine months to September 30		
	2013	2012	Change	2013	2012	Change
Claims incurred	97,352	75,646	21,706	241,787	191,772	50,015
Other expenses	49,876	44,212	5,664	142,490	131,235	11,255
	147,228	119,858	27,370	384,277	323,007	61,270
Loss ratio	76.6%	62.3%	14.3%	64.8%	53.5%	11.3%

Expenses are comprised of claims incurred and other expenses, which include commissions, premium taxes, administrative expenses and the Corporation's share from participation in the Facility Association.

Claims incurred

Overall, claims incurred totalled $241.8 million for the first nine months of 2013, an increase of 26.1% from 2012. The consolidated loss ratio increased to 64.8%, compared to 53.5% in 2012.

The following chart summarizes loss ratios by jurisdiction for the first nine months of 2013:



[1] *Catastrophe claims represent claims occurring from a single weather event over a period no longer than 72 hours and with an estimated cost greater than $1 million.*

Saskatchewan's loss ratio of 65.8% is higher than last year's nine month loss ratio of 51.7%, primarily a result of an estimated $19.6 million in ice damming claims[2], and large losses in personal lines and agro. Summer storm activity to the end of September resulted in an estimated $14.3 million of claims, compared to $15.9 million over the same period in 2012.

Manitoba's loss ratio increased to 47.4% from 43.2% in 2012, due primarily to a higher number of personal lines claims.

Alberta's loss ratio increased to 80.2% from 65.7% in 2012. Auto experienced large losses and worse than expected development on prior year claims. As well, summer hail storms resulted in a higher number of personal lines claims. The severe flooding that occurred in June 2013 resulted in $2.5 million of claims, compared to $1.5 million of catastrophe claims over the same period in 2012.

The Ontario loss ratio decreased to 51.1% from 59.4% in 2012, due largely to lower auto claim costs, as the auto reforms in Ontario are resulting in lower accident benefit costs. The favourable auto results were partially offset by claims related to the catastrophic flooding that occurred in July 2013, which resulted in $2.5 million of claims, compared to no storm claims in the same period in 2012.

The Maritimes loss ratio increased to 61.1% from 51.8% in 2012, due primarily to large personal and commercial line losses.

Other expenses

For the first nine months of 2013, other expenses increased by $11.3 million or 8.6% from 2012. The increase was due to higher commissions and administrative expenses. Commissions increased commensurate with premium growth and due to new broker programs in Saskatchewan. Administrative expenses increased $2.9 million due to growth in salaries and benefit costs.

Balance Sheet Review

(thousands of $)	September 30 2013	December 31 2012	Change
Total assets	**1,097,952**	**1,073,598**	**24,354**
Key asset account changes:			
Cash and cash equivalents	29,074	13,854	15,220
Accounts receivable	160,684	146,265	14,419
Investments	741,171	751,096	(9,925)
Reinsurers' share of unearned premiums	18,043	12,561	5,482

[2] *Ice damming occurs when snow melts above a warmed attic. Water moves down to the cooler roof edge and soffit, and freezes. Unless this water is able to drain properly, the resulting freezing can create ice dams on the roof, allowing water to damage shingles, soffit, and eventually work its way into a home.*

The increase in cash and cash equivalents is discussed in the Cash Flow and Liquidity section that follows. The increase in accounts receivable is the result of more premiums written in 2013, the majority of which are financed over the year. While the market value of investments has increased year-to-date, the carrying value of investments decreased by $9.9 million, reflecting the sale of long-term investments in order to fund $49.5 million in dividend payments and an increase in cash equivalent money market investments of $13.5 million. Reinsurers' share of unearned premiums are higher than at the end of 2012 as most annual reinsurance contracts are written during the first quarter of the year, and earned over the remainder of the year.

(thousands of $)	September 30 2013	December 31 2012	Change
Total liabilities	**810,465**	**790,923**	**19,542**
Key liability account changes:			
Accounts payable and accrued liabilities	58,640	69,600	(10,960)
Dividends payable	8,167	41,993	(33,826)
Premium taxes payable	16,341	20,505	(4,164)
Amounts due to reinsurers	15,533	9,250	6,283
Unearned premiums	287,579	275,410	12,169
Provision for unpaid claims	419,057	369,137	49,920

The decrease in accounts payable and accrued liabilities and dividends payable are the result of timing, with significant year-end accruals being paid during the first quarter. The decrease in premium taxes payable is due to premium taxes in Saskatchewan being accrued for the entire year and then paid in March of the following year. Amounts due to reinsurers increased as most reinsurance agreements are written in January and paid throughout the year. The increase in unearned premium is the result of higher premiums written in the last 12 months. The provision for unpaid claims increased due largely to losses related to the flooding in Alberta and Ontario, as well as the high property claim costs experienced in Saskatchewan, with many of these claims not yet finalized at September 30, 2013.

(thousands of $)	September 30 2013	December 31 2012	Change
Total equity	**287,487**	**282,675**	**4,812**
Key equity account changes:			
Retained earnings	204,139	199,521	4,618

The increase in retained earnings is attributable to the $17.4 million consolidated net income (excluding non-controlling interest) and other comprehensive income of $3.0 million offset by dividends declared of $15.7 million. Other comprehensive income represents actuarial gains associated with the Corporation's defined benefit pension and service recognition plans, related primarily to higher than anticipated investment returns.

Cash Flow and Liquidity

	three months to September 30			nine months to September 30		
(thousands of $)	2013	2012	Change	2013	2012	Change
Operating activities	36,150	40,883	(4,733)	40,140	64,320	(24,180)
Investing activities	(27,486)	(46,926)	19,440	24,573	(81,048)	105,621
Financing activities	(1,750)	(4,914)	3,164	(49,493)	(4,914)	(44,579)
Net cash flow	6,914	(10,957)	17,871	15,220	(21,642)	36,862

The third quarter generated operating cash flows of $36.2 million, which was used to purchase long-term investments of $27.5 million and finance the dividend payment of $1.8 million.

On a year-to-date basis, $24.6 million of cash generated from the sale of investments, combined with $40.1 million in positive operating cash flows, was used to fund the $49.5 million dividend payment and increase cash equivalent money market securities.

Capital

	as at September 30	
	2013	2012
Minimum Capital Test	237%	268%

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. At September 30, 2013, the Corporation's MCT was 237% (December 31, 2012 - 250%), which is in excess of the 150% minimum regulatory target. For further information on capital management, refer to note 8 of the notes to the consolidated financial statements for the quarter.

Quarterly Consolidated Financial Highlights

The following table highlights quarter-over-quarter results for SGI CANADA:

	2013			2012			
(thousands of $)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net premiums written	138,220	147,847	93,624	130,880	130,439	140,762	89,737
Net premiums earned	127,127	123,778	122,099	124,280	121,540	119,290	117,706
Claims incurred	97,352	82,195	62,240	54,340	75,646	68,219	47,907
Net income (loss)	(7,249)	(5,885)	30,576	24,212	14,998	3,645	39,837
Cash flow from (used in) operations	36,150	9,540	(5,550)	35,035	40,883	40,533	(17,096)
Investments	741,171	705,625	708,109	751,096	723,889	669,056	651,538
Provision for unpaid claims	419,057	397,376	375,599	369,137	384,501	371,603	358,790
Minimum Capital Test	237%	262%	288%	250%	268%	269%	280%

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2013:

- Net premiums earned generally increase on a quarter-over-quarter basis during the year.
- The first quarter generally experiences lower claims incurred compared to the rest of the year. Claims incurred can be high in the second and third quarters as a result of the summer storm season.
- With the exception of the first quarter, the Corporation generates positive cash flow from operations. Cash is typically low in the first quarter as the Corporation pays its annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

Risk Management

Understanding and managing risk is fundamental to the Corporation's success. The major risks that the Corporation manages in order to reduce the impact on its operations and profitability relate to competition, distribution channel, leadership and strategy, significant privacy breaches, catastrophic claim losses, business intelligence, transfer and acquisition of expertise, systems security, and product design and pricing. These risks are described in detail in the Corporation's 2012 Annual Report.

Accounting Matters

Critical accounting estimates and assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Corporation's 2012 Annual Report.

New accounting standards

Effective January 1, 2013, the Corporation adopted the amendments to IAS 19, *Employee Benefits*. For further information on the adopted amendments to IAS 19, refer to note 4 of the notes to the consolidated financial statements for the quarter. Besides IAS 19, there are no new accounting standards as compared to those discussed in the Corporation's 2012 Annual Report.

Related party transactions

There have been no material changes to the Corporation's related party arrangements during the quarter. For further details on the Corporation's related party arrangements, refer to the 2012 Annual Report.

Off balance sheet arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position, commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. There have been no new off balance sheet arrangements during the quarter. For further details on off balance sheet arrangements, refer to the 2012 Annual Report.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

In June 2013, the International Accounting Standards Board (IASB) published a revised exposure draft (2013 ED) on the accounting for insurance contracts that builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and measurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

Caution Regarding Forward-Looking Statements

Forward-looking statements include statements regarding SGI CANADA's objectives and strategies, and its ability to achieve them. Forward-looking statements are based on estimations and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are relevant in the circumstances. SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	September 30 2013 (unaudited)	December 31 2012 (restated note 4) (audited)
	(thousands of $)	
Assets		
Cash and cash equivalents	$ 29,074	$ 13,854
Accounts receivable	160,684	146,265
Investments under security lending program (note 5)	165,885	75,750
Investments (note 5)	575,286	675,346
Unpaid claims recoverable from reinsurers	42,948	45,501
Reinsurers' share of unearned premiums	18,043	12,561
Deferred policy acquisition costs	67,819	65,357
Property and equipment	32,285	32,353
Other assets	1,757	1,905
Deferred tax asset	4,171	4,706
	$ 1,097,952	$ 1,073,598
Liabilities		
Accounts payable and accrued liabilities	$ 58,640	$ 69,600
Dividends payable	8,167	41,993
Premium taxes payable	16,341	20,505
Amounts due to reinsurers	15,533	9,250
Unearned reinsurance commissions	4,039	4,014
Unearned premiums	287,579	275,410
Provision for unpaid claims	419,057	369,137
Deferred tax liability	1,109	1,014
	810,465	790,923
Province of Saskatchewan's equity		
Equity advances	80,000	80,000
Retained earnings	204,139	199,521
	284,139	279,521
Non-controlling interest	3,348	3,154
Total equity	**287,487**	282,675
	$ 1,097,952	$ 1,073,598

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

for the periods ended September 30, 2013 and 2012

	three months to September 30		nine months to September 30	
	2013	2012 (restated note 4)	**2013**	2012 (restated note 4)
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	(thousands of $)			
Gross premiums written	$ 150,519	$ 141,674	$ 415,799	$ 395,424
Premiums written ceded to reinsurers	(12,299)	(11,235)	(36,108)	(34,486)
Net premiums written	138,220	130,439	379,691	360,938
Change in net unearned premiums	(11,093)	(8,899)	(6,687)	(2,402)
Net premiums earned	**127,127**	121,540	**373,004**	358,536
Claims incurred	97,352	75,646	241,787	191,772
Commissions	28,686	24,672	79,297	71,784
Administrative expenses	15,189	14,020	45,705	42,417
Premium taxes	5,956	5,681	17,431	16,761
Facility Association participation (note 11)	45	(161)	57	273
Total claims and expenses	**147,228**	119,858	**384,277**	323,007
Underwriting profit (loss)	**(20,101)**	1,682	**(11,273)**	35,529
Investment earnings (note 6)	14,755	14,443	33,579	28,269
Income (loss) before income taxes	**(5,346)**	16,125	**22,306**	63,798
Income tax expense	1,903	1,127	4,864	5,318
Net income (loss)	**(7,249)**	14,998	**17,442**	58,480
Other comprehensive income (loss)	1,665	(682)	3,037	(1,757)
Comprehensive income (loss)	**$ (5,584)**	$ 14,316	**$ 20,479**	$ 56,723
Attributable to:				
The Province of Saskatchewan	(5,767)	14,146	20,285	56,244
Non-controlling interest	183	170	194	479
	$ (5,584)	$ 14,316	**$ 20,479**	$ 56,723

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the periods ended September 30, 2013 and 2012

	nine months to September 30	
	2013	2012 (restated note 4)
	(unaudited)	(unaudited)
	(thousands of $)	
Equity advances		
Balance, end of period	**$ 80,000**	$ 80,000
Retained earnings		
Balance, beginning of period	$ 199,521	$ 171,649
Net income	17,248	58,001
Other comprehensive income (loss)	3,037	(1,757)
Dividend	(15,667)	(10,007)
Balance, end of period	**$ 204,139**	$ 217,886
Total Province of Saskatchewan's equity	**$ 284,139**	$ 297,886
Non-controlling interest		
Balance, beginning of period	$ 3,154	$ 2,350
Comprehensive income	194	479
Balance, end of period	**$ 3,348**	$ 2,829
Total equity	**$ 287,487**	$ 300,715

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the periods ended September 30, 2013 and 2012

	three months to September 30		nine months to September 30	
	2013	2012 (restated note 4)	**2013**	2012 (restated note 4)
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	(thousands of $)			
Cash provided by (used for):				
Operating activities				
Net income (loss)	$ (7,249)	$ 14,998	$ 17,442	$ 58,480
Non-cash items:				
Bond amortization	644	807	2,215	2,440
Depreciation	1,392	1,162	3,959	3,424
Net realized gain on sale of investments	(9,701)	(1,751)	(18,270)	(1,512)
Actuarial gain (loss) on employee benefit plans	1,665	(682)	3,037	(1,757)
Net unrealized gain on change in market value of investments	(756)	(8,202)	(2,484)	(13,500)
Deferred income taxes	595	(127)	630	(223)
Change in non-cash operating items (note 9)	49,560	34,678	33,611	16,968
	36,150	40,883	**40,140**	64,320
Investing activities				
Purchases of investments	(343,976)	(209,545)	(949,079)	(528,550)
Proceeds on sale of investments	318,243	163,858	977,543	449,565
Purchases of property and equipment	(1,753)	(1,239)	(3,891)	(2,063)
	(27,486)	(46,926)	**24,573**	(81,048)
Financing activities				
Dividends paid	**(1,750)**	(4,914)	**(49,493)**	(4,914)
Increase (decrease) in cash and cash equivalents	**6,914**	(10,957)	**15,220**	(21,642)
Cash and cash equivalents, beginning of period	22,160	28,680	13,854	39,365
Cash and cash equivalents, end of period	**$ 29,074**	$ 17,723	**$ 29,074**	$ 17,723
Supplemental cash flow information:				
Interest received	$ 3,109	$ 2,576	$ 9,424	$ 9,453
Dividends received	$ 660	$ 624	$ 1,946	$ 1,685
Income taxes paid	$ 1,757	$ 630	$ 4,833	$ 2,067

(see accompanying notes)

Notes to the Condensed Consolidated Financial Statements (unaudited)

September 30, 2013

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA (2260-11th Avenue, Regina, Sask, Canada), is incorporated, registered and conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly owned subsidiary SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75%-owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 19.8% (December 31, 2012 - 18.1%) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the Public Service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes; however, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC. CIC is ultimately owned by the Government of Saskatchewan.

2. BASIS OF PREPARATION

The unaudited interim consolidated financial statements for the three and nine-month periods ended September 30, 2013, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including the International Accounting Standard 34, *Interim Financial Reporting*, and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

These unaudited interim consolidated financial statements do not include all of the note disclosures normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended December 31, 2012. Full disclosures will be included in the consolidated annual financial statements.

Basis of measurement

The unaudited interim consolidated financial statements have been prepared using the historical cost basis, except for financial instruments, certain items of land, building and building components and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The land, building and building components were fair valued upon transition to IFRS, using the deemed cost exemption. The provision for unpaid claims and unpaid claims recoverable from reinsurers are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of financial position classification

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

Functional and presentation currency

These unaudited interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of the unaudited interim consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 7) and valuation of investments (note 5).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The unaudited interim consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, dividend payable and premium taxes payable are designated as other financial liabilities.

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The common shares are level 1 financial assets and the fair value is determined based on quoted market values, based on the latest bid prices. The pooled equity funds are level 1 financial assets and the fair value is based on the quoted market values of the underlying investments, based on the latest bid prices. Bonds and debentures are level 2 financial assets and the fair value is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The pooled mortgage fund is a level 2 financial asset and the fair value is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the statement of financial position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the statement of financial position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held at the period end date.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the period end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings.

Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current period.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written, which are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period end date. The estimate includes the cost of reported claims, and claims incurred but not reported, an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The provision has been calculated including the impact of discounting using a discount rate of 2.17% (December 31, 2012 - 1.97%). The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral using a liability adequacy test. The limit is calculated as the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Reinsurance ceded

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized.

Employees' future benefits

The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

For the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

i. Net interest on the accrued pension liability is recognized in net income.

ii. Pension obligations are determined by an independent actuary using the projected unit credit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

iii. The discount rate used to determine the accrued benefit obligation and the expected return on plan assets was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

iv. Past service costs are expensed immediately.

v. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected unit credit method prorated on service. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the case of land, building and building components, fair value upon transition to IFRS has been used as the deemed cost.

The Corporation has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized.

The depreciation method, the useful lives and the residual values of the assets are reviewed at each reporting date. Repairs and maintenance are charged to the Consolidated Statement of Operations in the period in which they have been incurred.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Building	40 years
Building components	15-30 years
Computer hardware and other equipment	3-5 years

Building components consists of heating and cooling systems, elevators, roofs and parking lots.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Consolidated Statement of Operations. Goodwill is included in other assets on the Consolidated Statement of Financial Position.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts that builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and meaurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

4. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2013, the Corporation adopted the amendments to IAS 19, *Employee Benefits*. The amendments require all past service costs to be recognized immediately into net income, regardless of vesting requirements. Prior to adopting the amendment the Corporation had $1,470,000 of unamortized past service costs associated with its two defined benefit service recognition plans. The change has been adopted retroactively, the impact of the amendment is as follows:

	(thousands of $)		
	As previously reported	Increase (decrease) due to adjustment	Restated
Statement of Operations			
For the three months ended September 30, 2012			
Claims incurred	$ 75,677	$ (31)	$ 75,646
Administrative expenses	14,136	(116)	14,020
Net income	14,851	147	14,998
For the nine months ended September 30, 2012			
Claims incurred	$ 191,865	$ (93)	$ 191,772
Administrative expenses	42,767	(350)	42,417
Net income	58,037	443	58,480
For the year ended December 31, 2012			
Claims incurred	$ 246,236	$ (124)	$ 246,112
Administrative expenses	58,464	(467)	57,997
Net income	82,102	591	82,693
Statement of Financial Position			
As at December 31, 2012			
Accounts payable and accrued liabilities	$ 68,130	$ 1,470	$ 69,600
Retained earnings	$ 200,991	$ (1,470)	$ 199,521

5. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	September 30 2013	December 31 2012
Investments		
Short-term investments	$ 84,156	$ 79,632
Bonds and debentures	261,200	411,386
Canadian common shares	47,282	58,751
U.S. common shares	46,899	25,845
Pooled funds:		
Canadian equity	17,612	23,595
United States equity	18,265	10,447
Non-North American equity	45,252	37,584
Mortgage	54,620	28,106
	575,286	675,346
Investments under securities lending program		
Bonds and debentures	161,785	53,878
Canadian common shares	-	21,423
U.S. common shares	4,100	449
	165,885	75,750
Total investments	$ 741,171	$ 751,096

Securities lending program

Through its custodian, the Corporation participates in a securities lending program for the purpose of generating fee income. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At September 30, 2013, the Corporation held collateral of $174,179,000 (December 31, 2012 - $79,543,000) for the loaned securities.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – where quoted prices are readily available from an active market

Level 2 – valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates

Level 3 – models using inputs that are not based on observable market data

(thousands of $)

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	$ –	$ 84,156	$ 84,156	$ –	$ 79,632	$ 79,632
Bonds and debentures	–	422,985	422,985	–	465,264	465,264
Canadian common shares	47,282	–	47,282	80,174	–	80,174
U.S. common shares	50,999	–	50,999	26,294	–	26,294
Pooled funds:						
Canadian equity	17,612	–	17,612	23,595	–	23,595
United States equity	18,265	–	18,265	10,447	–	10,447
Non-North American equity	45,252	–	45,252	37,584	–	37,584
Mortgage	–	54,620	54,620	–	28,106	28,106
	$ 179,410	$ 561,761	$ 741,171	$ 178,094	$ 573,002	$ 751,096

During the period, no investments were transferred between levels and the Corporation did not have any investments classified as level 3.

6. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2013	2012	2013	2012
Net realized gain on sale of investments	$ 9,701	$ 1,751	$ 18,270	$ 1,512
Interest	2,581	2,780	7,610	8,197
Premium financing	1,494	1,437	4,381	4,280
Net unrealized gain on change in market value of investments	756	8,202	2,484	13,500
Dividends	574	583	1,835	1,660
Total investment earnings	15,106	14,753	34,580	29,149
Investment expenses	(351)	(310)	(1,001)	(880)
Net investment earnings	$ 14,755	$ 14,443	$ 33,579	$ 28,269

7. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Corporation's statement of financial position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification, and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products.

The concentration of insurance risk by region and line of business is summarized below by reference to gross premiums written:

(thousands of $)

September 30, 2013	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	$ 108,910	$ 129,592	$ 32,363	$ 26,623	$ 297,488
Manitoba	-	7,634	2,959	1,971	12,564
Alberta	26,702	8,944	2,992	3,490	42,128
Ontario	33,622	5,060	2,877	2,030	43,589
Maritimes	13,381	2,979	2,191	1,479	20,030
Total	$ 182,615	$ 154,209	$ 43,382	$ 35,593	$ 415,799

(thousands of $)

September 30, 2012	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	$ 100,864	$ 122,316	$ 31,447	$ 26,707	$ 281,334
Manitoba	-	8,184	2,742	1,889	12,815
Alberta	21,897	7,172	2,591	3,243	34,903
Ontario	36,488	6,003	2,511	1,972	46,974
Maritimes	12,911	3,101	2,067	1,319	19,398
Total	$ 172,160	$ 146,776	$ 41,358	$ 35,130	$ 395,424

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

(thousands of $)

	Gross		Reinsurance Recoverable		Net	
	September 30 2013	December 31 2012	September 30 2013	December 31 2012	September 30 2013	December 31 2012
Automobile	$ 202,007	$ 193,784	$ 14,216	$ 20,357	$ 187,791	$ 173,427
Personal Property	108,855	70,843	15,353	14,078	93,502	56,765
Commercial Property	23,544	17,197	7,600	5,239	15,944	11,958
Liability	56,495	59,274	3,690	3,910	52,805	55,364
Assumed	7,709	7,740	-	-	7,709	7,740
PFAD and discounting	13,857	14,295	2,089	1,917	11,768	12,378
Facility Association	6,590	6,004	-	-	6,590	6,004
Total	$ 419,057	$ 369,137	$ 42,948	$ 45,501	$ 376,109	$ 323,636

The concentration of insurance risk by region is summarized below by reference to unpaid claims liabilities:

(thousands of $)

	Gross		Reinsurance Recoverable		Net	
	September 30 2013	December 31 2012	September 30 2013	December 31 2012	September 30 2013	December 31 2012
Alberta	$ 43,713	$ 31,906	$ 7,062	$ 4,341	$ 36,651	$ 27,565
Saskatchewan	223,752	191,040	15,730	20,365	208,022	170,675
Manitoba	7,014	6,830	978	582	6,036	6,248
Ontario	123,685	120,549	18,742	19,923	104,943	100,626
Maritimes	20,893	18,812	436	290	20,457	18,522
Total	$ 419,057	$ 369,137	$ 42,948	$ 45,501	$ 376,109	$ 323,636

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

(thousands of $)

	2013	2012
Dwelling and farm property	$ 750	$ 750
Unlicensed vehicles	750	750
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,500
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	12,500	10,000

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the period end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the period end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

Financial risk

The nature of the Corporation's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	September 30 2013	December 31 2012
	Carrying Value	
Cash and cash equivalents	$ 29,074	$ 13,854
Accounts receivable	160,684	146,265
Fixed income investments [1]	561,761	573,002
Unpaid claims recoverable from reinsurers	42,948	45,501

1 Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include money market investments of $33,088,000 less bank overdraft, net of outstanding cheques of $4,014,000 (2012 - money market investments of $19,578,000 less bank overdraft, net of outstanding cheques of $5,724,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential, farm and commercial, along with amounts from brokers across the provinces that the Corporation operates in. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	September 30 2013	December 31 2012
Current	$ 158,943	$ 144,440
30-59 days	529	834
60-90 days	654	188
Greater than 90 days	6,012	6,436
Subtotal	166,138	151,898
Allowance for doubtful accounts	(5,454)	(5,633)
Total	$ 160,684	$ 146,265

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of $)	
	nine months ended September 30 2013	twelve months ended December 31 2012
Allowance for doubtful accounts, opening balance	$ 5,633	$ 5,126
Accounts written off	(1,539)	(1,814)
Current period provision	1,360	2,321
Allowance for doubtful accounts, ending balance	$ 5,454	$ 5,633

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	September 30, 2013		December 31, 2012	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 157,052	37.8%	$ 214,126	46.0%
AA	145,811	34.5%	137,751	29.6%
A	92,054	21.0%	91,048	19.6%
BBB	28,068	6.7%	22,339	4.8%
Total	$ 422,985	100.0%	$ 465,264	100.0%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by AM Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	September 30 2013	December 31 2012	September 30 2013	December 31 2012
Investment earnings	$ (15,191)	$ (11,855)	$ 15,191	$ 11,855
Claims incurred	(9,260)	(8,265)	9,260	8,265
Net income (loss)	(5,931)	(3,590)	5,931	3,590

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum of 14% and 9% respectively of the market value of the total investment portfolio. At September 30, 2013, the Corporation's exposure to U.S. equities was 9.3% (December 31, 2012 - 4.9%) and its exposure to non-North American equities was 6.1% (December 31, 2012 - 5.0%).

At September 30, 2013, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $6.9 million (December 31, 2012 - $3.7 million) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $4.5 million (December 31, 2012 - $3.8 million) decrease/increase in net income and retained earnings. As common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 24.2% (December 31, 2012 - 23.7%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	September 30 2013	December 31 2012
Canadian pooled equity fund and Canadian common shares	$ +/- 18,300	$ +/- 36,319
U.S. pooled equity fund and U.S. common shares	+/- 19,532	+/- 8,891
Non-North American pooled equity fund	+/- 13,395	+/- 12,252

The Corporation's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the Consolidated Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from its investing activities.

8. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. At September 30, 2013, the Corporation's MCT was 237% (December 31, 2012 – 250%). In addition, each of the subsidiaries' MCT is above 150%. There have been no changes to the Corporation's capital management processes and measures since the prior year end.

9. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2013	(restated note 4) 2012	2013	(restated note 4) 2012
Accounts receivable	$ (2,168)	$ (5,238)	$ (14,419)	$ (7,227)
Unpaid claims recoverable from reinsurers	4,138	1,022	2,553	9,668
Reinsurers' share of unearned premiums	(1,527)	(1,257)	(5,482)	(5,870)
Deferred policy acquisition costs	(2,953)	(2,653)	(2,462)	(3,140)
Other assets	134	303	148	(388)
Accounts payable and accrued liabilities	10,026	13,215	(10,960)	9,763
Premium taxes payable	5,905	5,477	(4,164)	(4,754)
Amounts due to reinsurers	1,617	475	6,283	103
Unearned reinsurance commissions	87	280	25	99
Unearned premiums	12,620	10,156	12,169	8,272
Provision for unpaid claims	21,681	12,898	49,920	10,442
	$ 49,560	$ 34,678	$ 33,611	$ 16,968

10. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salary costs, retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans and other benefits costs. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it based on a cost allocation framework. These amounts have been disclosed separately in this note.

The Corporation allocates expenses incurred to the various operating functions. The Corporation includes employee salaries and benefits in the claims incurred and administrative expense line on the Consolidated Statement of Operations.

The total salary and benefits expenses incurred during the year are as follows:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2013	(restated note 4) 2012	2013	(restated note 4) 2012
Salaries	$ 30,798	$ 29,607	$ 89,356	$ 85,445
Defined contribution pension plan	1,720	1,655	5,072	4,908
Defined benefit pension plan	(118)	(56)	(16)	(164)
Defined benefit service recognition plans	211	213	635	640
Other benefits	3,208	3,186	11,814	11,288
Total salaries and benefits	35,819	34,605	106,861	102,117
Less: Allocation to Saskatchewan Auto Fund	(22,029)	(21,494)	(65,720)	(63,433)
Salaries and benefits incurred in SGI CANADA	$ 13,790	$ 13,111	$ 41,141	$ 38,684

Defined contribution pension plan

The Corporation has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2010. The next valuation is anticipated to have a valuation date of December 31, 2013.

The actuarial valuation is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate.

Pension income for the defined benefit pension plan is as follows:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2013	2012	2013	2012
Current service cost	$ 14	$ 17	$ 41	$ 53
Interest cost	327	376	980	1,129
Expected return on pension plan assets	(459)	(449)	(1,037)	(1,346)
Pension income	$ (118)	$ (56)	$ (16)	$ (164)

Defined benefit service recognition plans

Pension expense for the defined benefit service recognition plan is as follows:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2013	(restated note 4) 2012	2013	(restated note 4) 2012
Current service cost	$ 61	$ 41	$ 181	$ 124
Interest cost	150	172	454	516
Pension expense	$ 211	$ 213	$ 635	$ 640

Actuarial (gains) losses recognized in other comprehensive income (loss)

Other comprehensive income (loss) results from changes to actuarial assumptions used to calculate the liabilities of the employee benefit plans and differences in the actual return on employee benefit plan assets versus estimated returns on these assets. The discount rate is the only key assumption that changed during the period, as follows:

Discount Rate	Defined Benefit Pension Plan	Defined Benefit Service Recognition Plans
December 31, 2011	4.20%	3.70% - 3.80%
September 30, 2012	3.70%	3.30% - 3.40%
December 31, 2012	3.60%	3.20% - 3.30%
September 30, 2013	4.30%	3.80% - 3.90%

Actuarial (gains) losses recognized in other comprehensive income (loss) are as follows:

	(thousands of $)	
	2013	2012
Cumulative actuarial losses, January 1	$ 8,326	$ 6,309
(Gain) Loss recognized during the first quarter	(494)	-
(Gain) Loss recognized during the second quarter	(878)	1,075
(Gain) Loss recognized during the third quarter	(1,665)	682
Cumulative actuarial losses, September 30	$ 5,289	$ 8,066

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the company, and include Board members, President and Chief Executive Officer, and Vice-Presidents of the Corporation. Key management personnel compensation is comprised of:

	(thousands of $)			
	three months ended September 30		nine months ended September 30	
	2013	2012	2013	2012
Salaries and benefits	$ 750	$ 685	$ 2,972	$ 2,553
Post-employment benefits	10	10	29	29
Contributions to defined contribution plan	63	61	192	183
	$ 823	$ 756	$ 3,193	$ 2,765

11. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2013	2012	2013	2012
Gross premiums written	$ 1,128	$ 957	$ 3,706	$ 3,936
Net premiums earned	$ 1,064	$ 1,035	$ 3,567	$ 3,613
Claims incurred	786	639	2,691	2,786
Commissions	38	(14)	135	194
Premium taxes	33	33	111	113
Administrative expenses	255	248	769	863
Total claims and expenses	1,112	906	3,706	3,956
Underwriting profit (loss)	(48)	129	(139)	(343)
Investment earnings	3	32	82	70
Net income (loss)	$ (45)	$ 161	$ (57)	$ (273)

12. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through operating segments located across Canada: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the geographical regions in which SGI CANADA operates. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

The product offerings vary across the segments, but all products offered are considered property and casualty insurance.

(thousands of $)

three months to September 30, 2013	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Total
Net premiums written	$ 100,024	$ 19,385	$ 12,585	$ 6,226	$ 138,220
Net premiums earned	91,420	16,436	13,277	5,994	127,127
Claims incurred	73,397	13,782	6,952	3,221	97,352
Other expenses	38,268	5,844	3,613	2,151	49,876
Underwriting profit (loss)	(20,245)	(3,190)	2,712	622	(20,101)
Investment earnings	10,233	1,605	2,503	414	14,755
Income (loss) before the following:	(10,012)	(1,585)	5,215	1,036	(5,346)
Income tax expense (recovery)	-	(207)	1,807	303	1,903
Net income (loss)	$ (10,012)	$ (1,378)	$ 3,408	$ 733	$ (7,249)

(thousands of $)

three months to September 30, 2012 (restated note 4)	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Total
Net premiums written	$ 94,045	$ 17,219	$ 12,937	$ 6,238	$ 130,439
Net premiums earned	86,789	14,198	14,828	5,725	121,540
Claims incurred	51,430	11,580	9,298	3,338	75,646
Other expenses	33,651	4,791	3,950	1,820	44,212
Underwriting profit (loss)	1,708	(2,173)	1,580	567	1,682
Investment earnings	10,275	1,470	2,306	392	14,443
Income (loss) before the following:	11,983	(703)	3,886	959	16,125
Income tax expense (recovery)	-	(169)	1,020	276	1,127
Net income (loss)	$ 11,983	$ (534)	$ 2,866	$ 683	$ 14,998

(thousands of $)

nine months to September 30, 2013	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 274,754	$ 49,967	$ 36,807	$ 18,163	$ -	$ 379,691
Net premiums earned	268,643	47,104	39,644	17,613	-	373,004
Claims incurred	176,741	34,031	20,245	10,770	-	241,787
Other expenses	108,657	16,070	11,307	6,456	-	142,490
Underwriting profit (loss)	(16,755)	(2,997)	8,092	387	-	(11,273)
Investment earnings	23,360	3,538	5,855	826	-	33,579
Income before the following:	6,605	541	13,947	1,213	-	22,306
Income tax expense	-	437	4,025	402	-	4,864
Net income	$ 6,605	$ 104	$ 9,922	$ 811	$ -	$ 17,442
Total assets	$ 706,456	$ 165,200	$ 225,815	$ 55,554	$ (55,073)	$ 1,097,952
Total liabilities	$ 541,172	$ 121,663	$ 162,473	$ 40,230	$ (55,073)	$ 810,465
Province of Saskatchewan's equity	$ 165,285	$ 54,018	$ 53,341	$ 14,843	$ (3,348)	$ 284,139

(thousands of $)

nine months to September 30, 2012 (restated note 4)	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 259,027	$ 43,718	$ 40,714	$ 17,479	$ -	$ 360,938
Net premiums earned	256,769	40,602	44,560	16,605	-	358,536
Claims incurred	132,660	24,043	26,463	8,606	-	191,772
Other expenses	99,874	13,744	11,584	6,033	-	131,235
Underwriting profit	24,235	2,815	6,513	1,966	-	35,529
Investment earnings	19,515	2,765	5,194	795	-	28,269
Income before the following:	43,750	5,580	11,707	2,761	-	63,798
Income taxes	-	1,451	3,073	794	-	5,318
Net income	$ 43,750	$ 4,129	$ 8,634	$ 1,967	$ -	$ 58,480
Total assets	$ 697,963	$ 144,737	$ 206,289	$ 53,083	$ (44,558)	$ 1,057,514
Total liabilities	$ 504,667	$ 103,358	$ 153,491	$ 39,841	$ (44,558)	$ 756,799
Province of Saskatchewan's equity	$ 193,296	$ 41,860	$ 52,798	$ 12,761	$ (2,829)	$ 297,886

13. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2012 balances have been reclassified to conform to 2013 financial statement presentation.